

F R E E T R A D E

AND

P R O T E C T I O N



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Statesman's Year Book published by Messrs. Macmillan and Co.

I have in a few cases inserted notes ; but as these are signed with my initials they can be readily distinguished from the original text.

MILLICENT GARRETT FAWCETT.

February, 1885.



marked improvement in Indian finance, the loss of revenue can not only be supplied without any fresh burden being imposed upon the tax-payers, but the surplus is sufficient to enable the repeal of the cotton duties to be accompanied by other important remissions of taxation.

March, 1882.



even in England many of those who profess strong adherence to these principles hold them by so slender a thread that when they settle in our Colonies, and are surrounded by a somewhat different set of economic circumstances, they become in numerous instances ardent protectionists.

Although I have not thought it necessary in this edition to alter the general arrangement of the book, yet some parts of it have been



gentlemen holding official positions at the Board of Trade—Mr. Edwin J. Pearson, and Mr. Robert Giffen, the well-known economist and statist. I desire here to acknowledge their kindness, and to offer them my sincere thanks.

I also wish to say how much I appreciate the assistance I have derived from my wife, who has revised the book as it was passing through the press, and from my secretary, Mr. F. J. Dryhurst, who has not only acted as my

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settled country, may be justified as a temporary expedient.— Protection in the Colonies has also been promoted by the fact that the gold discoveries in Australia attracted thither large numbers of operatives and artisans from England, who, finding gold-digging to be less remunerative than they had anticipated, welcomed any proposal to establish, by the aid of protective duties, those industries to which they had been accustomed.— An injury is done to the cause of free trade if the industrial prosperity of England is attributed entirely to her adoption of a free trade policy, and the other causes of this prosperity, such as the development of our railway system and fiscal reform, are left unaccounted for. For example, the habit of attributing our

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against home or foreign competition ; in support of this conclusion the question considered, Whether it is less advantageous for the people of France to trade freely with Alsace and Lorraine at the present time, than it was before these provinces were annexed to Germany?—Supposing protective duties to be imposed on articles imported from Alsace, it may be argued that the French people would be compensated for the loss resulting from their having to pay higher prices for these articles, because a new industry would be brought into existence in France. This however implies that some branch of trade is being carried on in a locality where the labour and capital employed in it do not

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exports considerably exceed the imports.—The excess of imports in England to a great extent due to the fact, that in the statistical tables of English trade, the value at which any article imported is estimated includes the cost of carriage and the profit of the importing merchant; whereas, in estimating the value of the exports, both the cost of carriage and the profit of the exporting merchants are excluded.—This fact to a considerable extent accounts for the excess of exports over imports in America as compared with the excess of imports over exports in England.—This excess of imports in England is also owing to the circumstance that no other country has so large an amount of capital embarked in foreign investments.—The dread expressed

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FREE TRADE AND PROTECTION.

Although it may be hoped that there is no danger of England departing from a policy of free trade, yet even here, where a few years since scarcely a single person could be found to say a word against free trade, a movement in opposition to what is called "one-sided free trade" is now finding many supporters. It would be useless to deny that the strong position which is thus occupied by protection has surprised no less than disappointed those who have been the leading advocates of free trade in England. Nothing could exceed the confidence with which it was predicted

which its opponents rely for support. It is unfortunate that in discussing the subject English free-traders frequently adopt a tone which is not calculated to convince those who differ from them. When protectionists are spoken of as if they were either solely prompted by a desire to sacrifice the welfare of the community in order to promote their own selfish ends, or when they are derided as the victims of economic fallacies so transparent that they ought not to mislead a child, it should be remembered that it is not many years since the great majority of the English people were

arguments that can now be urged in favour of free trade had many years previously been stated with the most admirable clearness and force by Adam Smith, Ricardo and other economists. In the pages of these writers are to be found many passages which furnish the best reply that can be made to the modern opponents of free trade. It may however be no doubt fairly urged that although little has of late been added to the theoretical arguments which can be advanced against protection, yet emancipation from

hunger, every one who was pinched by want, could be told, "Bread is made dear, and starvation is brought upon you because the cheap wheat which foreign countries eagerly wish to send you is refused admittance to your ports." No such plea in favour of free trade can be brought home to the people of the United States. It may be impressed upon them that they pay a needlessly high price for various manufactured commodities; that cloth, linen, shoes, hardware and innumerable other articles are made dearer by protection; but having to pay a higher price for a coat, a

and unconverted, had not a threatened famine in Ireland made them quail before the responsibility of maintaining a system which, by lessening the supplies of food, would have added to the number of those who were suffering the horrors of starvation. A short time before the abolition of protection there seemed to be every reason to suppose that the struggle might be long continued. The protectionist party had a large majority in both Houses of Parliament, and even of those who were not classed as protectionists a considerable number supported some modified form of

great number of different manufactures have been artificially fostered, and have been forced into a kind of unnatural existence through protection, much suffering and loss may be caused to those who are engaged, either as employers or employed, in these particular industries, if the support they have derived from protection is withdrawn. There are no doubt many who will not agree in the opinion just expressed; for it is often maintained that the abolition of protection is sure to bring an increase of prosperity to those trades which are protected. It will not, I think, be difficult

therefore ceases to possess any pecuniary value. He will have to seek some employment in which he will have no exceptional advantage which will enable him to claim unusually high wages, and it will not improbably happen that he may be unable to earn more than half the wages which he had previously obtained. Great therefore as may be the advantage conferred on a community by the extended use of machinery in adding to the productiveness of labour and capital, it is well not to lose sight of the fact that the labourers whose special skill is superfluous

were not imposed on the importation of salt into that country. If, therefore, these duties were abolished, the manufacture of salt in France would cease to exist as an industry, and those who are engaged in it, either as masters or workmen, would have to bear the loss and inconvenience which always accompany the transfer of capital and labour from one employment to another. In countries which maintain a system of protection there are always many industries, the existence of which, like the manufacture of salt, is dependent on the duties imposed on their imports.

of industry depend upon the continuance of the system not only for their prosperity, but in many cases for their very existence.

Another phase, however, of the present protectionist movement seems at first sight more difficult to explain. Allusion has already been made to the strong support which is given to protection, and to the adoption of its principles, in many of our colonies. It may with reason be said, "It is possible to understand why in a country in which protection is

Amongst other circumstances which probably cause protection to find favour in a young colony there is one to which, as I believe it has attracted little notice, it will be desirable here briefly to refer. A large portion of the population of such a colony as Victoria is composed of those who have emigrated from England. Amongst these emigrants there are sure to be many who will discover that they cannot find the same kind of employment as that to which they have been accustomed. An intending emigrant would of course act more wisely if, before leaving, he

It, as just indicated, I attempt in the following pages fairly to consider the causes which have not only retarded the general adoption of free trade, but which have even created a certain reaction in favour of protection, I hope it will not be supposed that I wish in the slightest degree to defend the protective system or to palliate the evils which it produces. I feel however very strongly the importance of giving full and careful consideration to the arguments that are advanced by protectionists. It has I believe not infrequently happened that the opposition

ciously adhered to, of raising revenue from almost every article of foreign produce that was imported. In 1845 import duties were levied upon no less than 1142 separate articles. Of the duties which were thus imposed only those could be considered protective which placed the foreign producer at a disadvantage compared with the home producer. A large number of the articles imported, such as tea, coffee, chicory, sugar, and wine, are not produced in England, and consequently the duties which were imposed upon them could not be protective in their character.

great prosperity, to show that the increased production of wealth depends on other causes besides free trade. If the English free-trader rests his case upon the increase of wealth in his own country, he is immediately met with the rejoinder that with tariffs that have gradually become more protective there has also been a great increase of wealth in the United States and other countries. Little practical good can result from thus arraying the prosperity of one country against that of another. All that can fairly be

1876-77 was even more severe than it was in England, and many who before had been warm adherents of protection were then induced to doubt its efficacy. Although free trade cannot prevent fluctuations in the industrial progress of a country, yet I think it can be shown that if our commerce had been in any way less unrestricted than it is, the depression from which England has recently been suffering would have been indefinitely greater, and would have been accompanied by incalculably more severe hardships.

reference may again be made to the fact that the protectionists in Australia, Canada and other Colonies have been largely recruited by those who have lately emigrated from England. It not unfrequently happens that a Lancashire or Yorkshire operative, who had in England always been a fervent free-trader, almost immediately becomes a protectionist when he settles in the Colonies, where he is surrounded by a different set of economic conditions.

The application of the theory of protection will naturally

trade and protection, I shall endeavour in a subsequent chapter to give a full and impartial statement of all the leading arguments which are advanced in America, the Continent, and the Colonies in favour of protection. These arguments will be classed under thirteen heads, each of which will be separately considered. In the two concluding chapters, the subjects of commercial depression and commercial treaties will be dealt with ; and I think with regard to commercial depression it will be easy to prove that this depression has not been caused by free trade, that many

CHAPTER II.

PROTECTION

transmitted abroad to adjust this balance; as it was supposed that the country was rendered so much poorer by the money which was thus sent away, it was thought to be an object of first importance that this flow of money should be checked, and, if possible, turned in an opposite direction. The encouragement of exports and the discouragement of imports consequently became the guiding principle of the commercial policy of every country, because the more exports were increased and the more imports were diminished the greater would be the amount

markets ; whilst import duties, if made sufficiently high, would effectually keep out foreign competition from the home market. Commerce was so generally looked upon as a struggle between rival countries whose interests were assumed to be entirely antagonistic, that to impede the industrial development of foreign nations was supposed to be scarcely less important than to aid the prosperity of home trade. Even at the present time there are many who apparently think that it is to the direct interest of their own country that other nations should not prosper. It will,

and sometimes granted to the produce of particular branches of domestic industry. By means of them our merchants and manufacturers, it is pretended, will be enabled to sell their goods as cheap or cheaper than their rivals in the foreign market. A greater quantity, it is said, will thus be exported, and the balance of trade consequently turned more in favour of our own country." Although these bounties were petitioned for and granted on the ground that they would promote a favourable balance of trade,

a community. In the first place, the encouragement which was given to the sending of surplus corn abroad in good seasons left the country with a smaller accumulated store with which to meet times of scarcity. Secondly, bounties, by increasing the foreign demand for corn, increased its price to the home consumers, who were thus in this unfortunate position : they were taxed in order to raise the price of the food they consumed. It thus appears that the country was not only, through the operation of these bounties, placed in a more unfavourable position to meet the diffi-

granting a bounty on the export of sugar from France ; the effect of the bounties given on French shipping will be afterwards investigated. It is desirable to consider the subject of the French sugar bounties not only because of the interest excited by the question in England, but as beet-root, from which sugar is largely made in France, is grown in France, the case will afford an opportunity of considering the influence exercised by a bounty, both upon a manufacturing and an agricultural industry.

Owing to the complicated and indirect way in which this

bounty, which is in this way given, amounts to about 3s. per cwt.¹ Such a bounty represents at least 10 per cent. of the value of the sugar exported. The French sugar manufacturers would of course be great gainers if they could appropriate to themselves the whole of this bounty; for in addition to the ordinary current rate of profit on the sugar which they sell for home consumption, they would obtain, as extra profit, ten per cent. on the entire amount which was sold for export. Such a business would evidently be so exceptionally remunerative, that each sugar manu-

foreigners, such a useful article as sugar at considerably less than its cost price, we will compensate you by a Government grant for any loss which you may have to bear.

By thus artificially stimulating the export of sugar from France, the French sugar trade is no doubt extended, and the demand for French beet-root and other materials, out of which sugar is made, is increased. But when considering any attempts that may be made, either by bounties on exports, or by restraints on imports, to give an artificial encouragement to any particular trade it cannot be too

them. Even Adam Smith, when referring to the bounties which in his time were given on corn, speaks as if farmers were specially benefited by the price of agricultural produce being maintained at a high level. It can, however, be shown that whenever the price of an article is artificially raised, either by encouraging exports or discouraging imports, the higher price does not represent an increased rate of profit, but is nothing more than a bare compensation given to the trader, because he has to carry on his industry at a greater cost. It has been already explained that capital

material of some manufacture. Thus the stimulus which is given to the export of French sugar by the present bounty may, by increasing the demand for beet-root from which this sugar is so largely made, increase its price, and thus additional value may be given to the land on which the beet-root is grown. But the gain which is in this way secured by a special class, is purchased at the expense of the entire French nation. The whole community is, in fact, doubly taxed. In the first place, the bounty, whether it costs 750,000*l.* or only 360,000*l.* a year, still represents a very

we once embarked on the policy of protecting a special trade against the harm which may be done to it by some other country adopting an unwise fiscal policy, we should soon find ourselves involved in a labyrinth of commercial restrictions, and our tariff would become as protectionist as is the tariff of the most protectionist country. We occasionally hear of iron being imported into England from Belgium, and of cotton goods being sent to us from America. Our ports are freely open to receive any quantity of these products which America or Belgium may be willing to send

advance in the price of sugar as would make the trade of sugar-refining in England adequately remunerative.

It is desirable separately to consider the bounties which are now given in various countries on shipping, because it will be seen that the assistance thus granted to a special industry, produces consequences different from those which are produced by the bounties on exports to which attention has just been directed. As the policy of conferring bounties on shipping has recently received its most important development in France, the principles involved in the adoption

fixed by the Custom House tariff;" and the object aimed at is still more explicitly explained in the report of the Committee of the Senate, appointed to consider the Bill after it had been passed by the Chamber of Deputies. It is stated in this Report that the object of the measure is to "facilitate the construction of ships by enabling ship-builders to obtain duty free the metal, wood, &c., which they require, this end being attained by giving them a subsidy on the ships built equivalent to the duty." In defence of this policy it is with much persistency urged by

required for the subsidy, it might be remarked that the annual sum which is needed is estimated by the French Government to be about 1,400,000 francs,² but whether the amount be large or small it is evident that the money can be supplied from no other source except the general taxation of the country. It cannot be too constantly borne in mind that governments are just as powerless as ordinary individuals to create wealth except by an expenditure of labour and capital. This truth seems to be lost sight of in proposals that are frequently brought forward involving grants

price for his ploughs, his threshing-machines and other implements; the cotton and the woollen manufacturers have to pay more for their machinery, and their buildings are erected at a greater cost; the wine-grower has to pay more for his casks; the railway companies more for their locomotives, their carriages and their rails. It may be urged that some of these industries already receive a subsidy in consequence of the advantage they derive from being protected in the home market against foreign competition.

suffer a similar injury to receive similar compensation will be so cogent as to prove irresistible. The system of subsidies may thus be gradually extended to almost every trade, and if this is the case a most powerful agency must inevitably be brought into operation to undermine the protective system. It is difficult to imagine how the most devoted adherent of protection can continue to believe in its efficacy if he should find that it has brought about the result that almost every industry has to be subsidised in order, if possible, to provide some compensation for the

Report to represent a "magnificent result which may be considered as a maximum," it becomes desirable to compare the effect produced upon the development of an industry by Government interference, with the development of the same industry when its progress, unaided by Government, depends upon the individual enterprise and skill of those who are engaged in it. The aggregate tonnage of the steam vessels possessed by Great Britain at the end of 1883 was 3,728,268 tons, and in a single year, between 1882-83, the addition made to the tonnage was no less than 393,053

to be attributed to the fact that whereas there has been an extraordinary growth in the shipping trade of England since it was liberated from restrictions by the repeal of the Navigation Laws and the adoption of a policy of free trade, the mercantile marine of the United States, under a system of protection, far from showing any increase, is actually declining. As an illustration of this fact it may be mentioned that rather more than twenty years ago 75 to 80 per cent. of the total commerce of the United States was carried in American vessels. The protectionist policy of

the more remarkable when it is remembered that, in order to encourage it, the American people submit to various most harassing restrictions. Thus, an American citizen is prohibited by law from purchasing ships built abroad to engage in the foreign carrying trade, and is prevented from registering them as American ships even when owned, commanded, and officered by citizens of the United States.

As previously stated, subsidies are given in France not only on the building, but also on the navigation of ships. It is necessary to consider these latter subsidies separately.

arranged as to give an important amount of protection to the French shipping interest. When the Bill which confers these subsidies was passing through the French Senate, an amendment was introduced which makes the navigation subsidy on a French-built ship twice as great as that given on the navigation of a foreign-built ship. The effect of this arrangement is to increase the subsidy on the building of French ships, for it is obvious that a French merchant, in considering the price which he might be willing

time and speed, of letters, newspapers and other postal matter. Such a payment may raise many important questions of administration; thus on the one hand it has been contended that the State does not receive a service which is equivalent to the amount paid; and that an equally good if not an improved conveyance of mails would be secured if they were treated more as ordinary merchandise. On the other hand it has been urged that without some special arrangement being entered into there are many cases in which regularity of conveyance would not be ensured, and

which were built in American ship-yards, and owned and manned by American citizens.¹

PART II.—*Restraints on Imports.*

In proceeding to consider the effects which are produced by imposing protective duties on imports, it will be necessary in the first instance, to point out the very important difference there is between an import duty which is imposed for purposes of revenue, and one which is maintained with

by making the article which is imported dearer, it would discourage its use, and would, *pro tanto*, give an advantage to the product of home growth. Thus, if in England when the malt duty was repealed, no duty had been imposed on beer, and if at the same time an import duty were levied on wine, such a duty might be regarded as protective; because wine which was taxed might often come into direct competition with beer which was untaxed. Such an objection, however, cannot be raised to import duties as they are levied in England. English and foreign-made

greater the importation, the larger is the revenue obtained. In the second case, the object being to discourage importation, the smaller the amount of revenue obtained, the more completely will the purpose of the duty have been achieved. In the entire tariff of the United States there is probably no import duty which is considered to be more entirely successful than that which is levied on imported copper. This duty so completely defeats foreign competition, that the quantity of copper imported into the United States is

virtually obtain 20s. more for every ton of iron than his English competitor; and this might be sufficient amply to compensate him for having to pay higher wages or for any other circumstance which might make the cost of producing iron in America greater than in England. I have thought it desirable to describe the advantage which the home trader thus derives from this natural protection, because it will be necessary to refer to the subject when considering the arguments which are advanced in support of protective tariffs.

of the consequences which were produced in England by the protection which was given to agriculture will enable us more clearly to understand the effects which result from the protective duties which are now maintained on various branches of manufacturing industry in France, Germany, America, and other countries.

It has already been explained that protection may be regarded as the natural outgrowth of the mercantile system. Exports were encouraged and imports discouraged with the

solicitude was shown, to secure for the agricultural interest the high prices resulting from a strict monopoly. No live stock and no fresh meat were permitted to be imported; and for many years English farmers and English landowners were so terrified, even at the competition of Ireland, that no Irish cattle were allowed to be sent to England. So mischievous was it considered that the people should use any butter that was not produced in England, that although butter might be imported to serve as grease for machinery,

hundred years, for the sake of securing a high price for home-grown wool and flax, put most serious impediments in the way of the progress of the cotton manufacture in this country, which has since become one of the largest and most important of our national industries.

During the closing years of the last, and the commencement of the present century, the foreign trade of England was so much impeded by war, so many ports were closed from which she could have obtained food and other commodities, that prices, especially of agricultural produce,

One of the great evils associated with the sliding scale was the extreme uncertainty which it threw over the foreign wheat trade. Thus if when wheat was at 73s. a quarter in England, a merchant purchased wheat in Odessa at 65s. a quarter, and paid 5s. a quarter for its carriage to England, he might find that, before he could sell it, wheat had fallen in price to 62s. a quarter. He would not only lose 8s. a quarter owing to this fall in price (this may be considered as the natural and inevitable risk connected with trade),

that neither the profits of the farmer, nor the wages of the labourer, were increased; but, on the contrary, the capital and the labour, which were applied to the cultivation of the land, participated in that general diminution of productiveness with which the entire capital and labour of the country were stricken in consequence of the impediments which were thrown in the way of the nation's industry. When the Corn Law was passed in 1815, the farmers were confidently told that a beneficent legislature had ordained that wheat would never be less than 80s. a quarter. A

can be paid only out of the capital and not from the profits of the tenantry. This pressure upon the farmer is stated by some of the witnesses to have materially affected the retail business of the shopkeepers in country towns connected with the agricultural districts." From the evidence given before these committees it was conclusively shown that the high price of agricultural produce had yielded no extra profits to the farmer and no extra wages to the labourer, but that it had been absorbed in increased rents. In fact the corn laws and the sliding scale, instead of

in its stronghold, for the farmers who had hitherto been its most devoted advocates, were at length beginning to perceive that whatever protection might have done for others it had not profited them. The greatest importance was at the time attributed to this meeting. All the agricultural associations of Essex had combined to secure a triumph for the protectionist party. The entire county had been canvassed by the leading landowners, and by the rural clergy. On the day of meeting the farmers assembled in such great numbers that it was supposed even by the advo-

for the unemployed labour which was steadily accumulating in the rural districts. Wages consequently were reduced to a minimum; often not more than 7s. or 8s. a week could be earned, and the greatest distress prevailed in the rural districts.

In the life of Mr. Cobden, by Mr. John Morley, an interesting account is given of the condition of the rural labourers when first the anti-corn-law agitation began its operations. "In Somersetshire," he writes, vol. i. p. 156, "the budget of a labourer, his wife and five children under

a necessary consequence of the corn laws and of the sliding scale. The effect which these restrictions would have in maintaining the price of corn at a high level, was over-estimated, and consequently rents were fixed so high as to prove disastrous to the farmers. If there had been no attempt to give protection to agriculture, this excessive rise in rents would have been avoided ; yet the fact that rents were excessive was undoubtedly due to the impossibility of estimating what would be the effect on the price of corn

It therefore appears that the effect of producing by protection a rise in the price of agricultural produce is to cause an advance in rents. This rise in price is however powerless permanently to secure either for the farmer or the labourer any exceptional advantages. The remuneration which they respectively receive must ultimately be determined by the general rates of profit and of wages prevailing in other branches of industry. In order therefore to ascertain the ultimate consequences to the farmer and to

that what he was before able to purchase for 5s. now cost him 7s. In this event one of two things must occur. If his wages are not advanced in consequence of this rise in the price of food, a most serious loss will be inflicted upon him. His wages, though nominally the same as before, are really greatly reduced, for he finds that all that portion of his wages which he spends in procuring food and the other articles which are made artificially dear, has lost a considerable part of its purchasing power. The loss which